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Annual

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Report Highlights:

Modest gains in Philippine live cattle and beef imports are forecast this year, with stronger sales predicted in 2003, as BSE-related concerns continue to subside. Strong Philippine pork production is forecast through next year, which will reduce already modest imports of swine meat.

Includes PSD changes: Yes

Includes Trade Matrix: No

Annual Report

Manila [RP1], RP

Executive Summary

The expected economic improvement this year coupled with the growing Philippine population will result in higher demand for meat. Beef consumption is gradually improving as BSE-related concerns continue to diminish. The local cattle industry is expected to expand marginally during the year fueled mainly by the growth in water buffalo output. Live cattle and beef imports during the year are projected to slightly increase from their 2001 levels. Demand for beef is expected to accelerate in 2003 as the Philippine economy continues to improve. While growing, beef consumption is still relatively modest due to high prices compared to other meats and a highly inequitable distribution of national income.

Higher consumption of pork is also expected with local products accounting for nearly all sales. Import volumes are expected to decline due to strong domestic production while live swine imports will be roughly unchanged.

Production

Upward adjustments were made to 2001 cattle production to approximate official estimates from the Bureau of Agricultural Statistics (BAS) for the year. Based on BAS data, cattle production or calf crop last year expanded by 15.6 percent from its previous level while water buffalo production grew by 4.5 percent. This resulted in higher live cattle/water buffalo ending stocks in 2001 with water buffalos accounting for about 55 percent of total live bovine animals. For swine, ending inventories in 2001 grew 5.3 percent mainly as a result of a 5.1 percent increase in the 2001 pig crop.

Because of higher cattle/water buffalo stocks entering 2002, cattle production during the year was adjusted upwards. Slaughter rate was likewise raised slightly resulting in higher beef production during the year. Despite the reduction in the lease rates of pasture lands (refer to RP2002), investments into the industry are expected to remain minimal considering the majority of live cattle and water buffalos are in small hold operations (92 and 98 percent, respectively). Dominance by water buffalos of the Philippine cattle industry is expected to continue for at least the next 3 -5 years. For the first quarter of the year, the domestic cattle industry contracted 0.6 percent while water buffalo production grew 3.5 percent, according to the BAS.

For swine, production is likely to continue its steady growth through 2003 due to strong demand for pork. Already, volume of production by the hog's sector expanded 4.6 percent in the first 3 months of 2002. The domestic swine industry in its efforts to modernize considers genetic improvement as the most important factor to be more productive and competitive in the world market. The domestic hog industry also recognizes the importance of disease profiling in the efficient operations of swine farms. About 35 percent of the swine is produced in integrated operations.

Both cattle/water buffalo and swine farmgate prices in 2001 were generally higher compared to their year ago levels. Cattle/water buffalo ex-farm prices rose as a result of the GOP's ban on bovine animal imports from Europe. According to revised estimates from the BAS, monthly farmgate prices of cattle last year averaged P50.58 (\$0.99) per kilo or roughly 6 percent higher than the P47.89 (\$0.94) per kilo average monthly price recorded for 2000. Average live cattle prices for the first quarter of 2002 were at P50.91 (\$99.8) per kilo, slightly higher than the P50.64 (\$99.3) average farmgate price during the same period in 2001.

Prices Table			
Country	Philippines		
Commodity	Animal Numbers, Cattle		
Prices in	Pesos	per uom	Kg./Live
Year	2000	2001	% Change
Jan	44.05	50.28	14.14%
Feb	44.64	51.10	14.47%
Mar	43.39	50.55	16.50%
Apr	44.49	51.61	16.00%
May	45.86	51.24	11.73%
Jun	51.42	51.03	-0.76%
Jul	47.11	50.52	7.24%
Aug	49.92	50.08	0.32%
Sep	51.20	50.27	-1.82%
Oct	49.75	49.72	-0.06%
Nov	46.88	51.45	9.75%
Dec	49.27	50.86	3.23%
Exchange Rate	51.67	Local currency/US \$	

Source: Bureau of Agricultural Statistics

The average live weight price for water buffalos last year was P41.80 (\$0.82) per kilo or 15 percent higher than the P36.45 (\$0.71) per kilo average monthly price in 2000 according to data from the BAS. The highest increase in price (26.4 percent) was recorded last January 2001 while a slight contraction occurred last (-0.10 percent) September 2001.

Prices Table			
Country	Philippines		
Commodity	Animal Numbers, Water Buffalo		
Prices in	Pesos	per uom	Kg./Live
Year	2000	2001	% Change
Jan	32.12	40.59	26.37%
Feb	33.50	41.65	24.33%
Mar	34.59	40.93	18.33%
Apr	35.39	42.84	21.05%

May	36.61	42.94	17.29%
Jun	34.87	43.86	25.78%
Jul	39.82	42.09	5.70%
Aug	33.76	42.06	24.59%
Sep	40.59	40.55	-0.10%
Oct	39.30	41.02	4.38%
Nov	38.55	41.66	8.07%
Dec	38.35	41.35	7.82%
Exchange Rate	51.67	Local currency/US \$	

Source: Bureau of Agricultural Statistics

The average farmgate price of live hogs was P52.13 (\$1.0) per kilo last year, higher by 1.7 percent than the previous year's P51.27 (\$1.0) average. The lowest price recorded last year was P50.33 (\$0.99) per kilo in January while the highest at P53.43 (\$1.05) per kilo in May. Increased demand for pork at the expense of beef consumption drove swine farmgate prices in 2001.

Prices Table			
Country	Philippines		
Commodity	Animal Numbers, Swine		
Prices in	Pesos	per uom	Kg./Live
Year	2000	2001	% Change
Jan	54.13	50.33	-7.02%
Feb	53.50	51.44	-3.85%
Mar	55.00	52.13	-5.22%
Apr	53.36	52.82	-1.01%
May	54.42	53.43	-1.82%
Jun	52.21	52.81	1.15%
Jul	48.65	53.09	9.13%
Aug	48.51	51.95	7.09%
Sep	48.34	51.87	7.30%
Oct	49.03	51.45	4.94%
Nov	48.11	51.77	7.61%
Dec	50.00	52.43	4.86%
Exchange Rate	51.67	Local currency/US \$	

Source: Bureau of Agricultural Statistics

Consumption

Government planners had predicted Philippine GDP in 2002 to grow by 4.0 to 4.5 percent with inflation expected to fall within a range of 4.5 to 5.5 percent. The Embassy in Manila, however, projects GDP to fall within the lower 3.5 to 4.5 percent range while inflation predicted at 4.8 to 5.2 percent. The Asian Development Bank (ADB) also forecasts the Philippine economy to grow at a lower 4.0 percent in 2002.

In the first quarter of 2002, GDP expanded by 3.8 percent in the first quarter, up from the 2.9 percent growth a year ago, fueled mainly by the services and agricultural sectors. GNP for the same period, on the other hand, grew 4.9 percent from 3.4 percent a year ago as dollar remittances from overseas workers were higher than expected. According to government planners, the favorable economic performance in the first quarter of this year makes the country's economy on track to meet the GOP's growth forecast for 2002.

PROJECTIONS FOR SELECTED ECONOMIC INDICATORS						
				2000	2001	2002
GDP Growth (Year-on-year, %)				4.0	3.4	3.5-4.0
GNP Growth (Year-on-year, %)				4.5	3.7	3.9-4.3
Ave. Year-on-Year Inflation				4.4	6.1	4.8-5.2
Ave. Forex Rate (Peso/US\$)				44.19	50.99	51.60-52.25

*Embassy Projections as of March 2002

Note: Indicators for 2000 and 2001 are final estimates.

Sources: National Economic and Development Authority and Bangko Sentral ng Pilipinas,
Bureau of Treasury

For 2003, the government had originally targeted a GDP growth rate of 5.4 to 5.9 percent. Recently, however, the cabinet reportedly revised down the targets to 5.0 to 5.5 percent. The ADB likewise expects 2003 GDP to increase at a slower 4.5 percent. Inflation is expected to remain stable at 5 to 6 percent in 2002-2003, according to the ADB.

After contracting in 2001, beef consumption is expected to start growing slightly this year as food safety concerns caused by the BSE outbreak in Europe begin to subside. Cattle slaughter in 2002 was raised because of this but will likely remain flat compared to its year ago level. Slaughter of live cattle will likely increase in 2003 as beef consumption accelerates during the year when the economy further improves and the Philippine population continues its rapid growth. Strong and steady pork demand, on the other hand, is expected to continue increasing for at least the next 3 years but may slowdown slightly in 2003 as beef consumption recovers and some shifting away from pork occurs.

Since the local cattle industry is mainly in small backyard operations, traders play a significant role in the marketing of live cattle and beef. This drives up local beef prices as evidenced by the glaring difference in farmgate prices of live

animals and retail prices of beef. Last year, water buffalos accounted for roughly 30 percent of total cattle slaughter and comprised about 40 percent of total bovine meat produced.

Monthly retail beef prices last year were higher compared to their year-ago levels. The average monthly beef price per kilo last year was P159.27 (\$3.12), 12 percent higher than the P142.27 (\$2.79) average in 2001. The highest price recorded last year was on December when it reached P165.82 (\$3.25) per kilo while the lowest occurred in January at P151.49 (\$2.97) per kilo.

Prices Table			
Country	Philippines		
Commodity	Meat, Beef and Veal		
Prices in	Pesos	per uom	Kilo
Year	2000	2001	% Change
Jan	140.94	151.49	7.49%
Feb	141.35	158.88	12.40%
Mar	141.22	158.93	12.54%
Apr	141.59	158.25	11.77%
May	142.19	158.00	11.12%
Jun	142.41	158.90	11.58%
Jul	142.01	158.96	11.94%
Aug	142.05	159.49	12.28%
Sep	141.73	159.28	12.38%
Oct	142.05	159.22	12.09%
Nov	142.88	163.99	14.77%
Dec	146.84	165.82	12.93%
Exchange Rate	51.67	Local currency/US \$	

Source: Bureau of Agricultural Statistics

A highly skewed income distribution pattern and increasing beef prices make it extremely difficult for the great majority of the Philippine masses to afford eating beef. In a recent study, the World Bank reportedly notes that more than 45 percent of the Philippine population of about 80 million live on \$2 a day or less while the GOP says the poverty level - or subsistence on less than a dollar a day stands at 40 percent of the population. Although price information is not readily available, it is also for this reason why demand for carabeef or water buffalo meat has been increasing. Carabeef is cheaper and used mainly for processed meat products such as corned beef.

The local corned beef market is estimated at P6 billion (\$117.65 million) and reportedly grew 15 percent in the first half of 2002. The growth was fueled by the surge in sales of pre-sauteed corned beef otherwise known as *karne norte*.

whose share of the overall corned beef market reportedly grew from 18 percent in the first half of 2001 to 34 percent during the same period this year. *Karne norte* is produced by Foodsphere, Inc. under its CDO brand. *Karne norte* was introduced in 100g packing at a very affordable price of P10 (\$0.20). The market leader, however, remains to be the Argentina corned beef brand of Pacific Meat Corp. with an estimated market share of about 40 percent.

Like beef, monthly pork prices in 2001 were higher compared to prices during the same period last year. Monthly pork prices in 2001 averaged P115.79 (\$2.27) per kilo with the highest price in the month of May at P119.52 (\$2.34) per kilo. The lowest pork price in 2001 was recorded in January at P110.66 (\$2.17) per kilo. Average prices in 2001 were 6.8 percent higher than the P108.42 (\$2.13) per kilo average recorded the year before.

Prices Table			
Country	Philippines		
Commodity	Meat, Swine		
Prices in	Pesos	per uom	Kilo
Year	2000	2001	% Change
Jan	107.50	110.66	2.94%
Feb	107.25	115.04	7.26%
Mar	107.24	118.36	10.37%
Apr	110.21	119.08	8.05%
May	110.99	119.52	7.69%
Jun	110.25	118.89	7.84%
Jul	108.25	117.28	8.34%
Aug	106.93	115.69	8.19%
Sep	106.44	113.79	6.91%
Oct	107.62	113.28	5.26%
Nov	108.74	113.33	4.22%
Dec	109.61	114.61	4.56%
Exchange Rate	51.67	Local currency/US \$	

Source: Bureau of Agricultural Statistics

The acquisition of Pure Foods Corp. by San Miguel Corporation (SMC) last year has made the San Miguel Food group the dominant player in processed meats and poultry feeds. Last year, SMC accounted for an estimated 75 percent of the hotdog market, 25 percent of canned meats, 40 percent of poultry, 30 percent of feeds and 17 percent of flour milling.

Trade

As a result of the BSE outbreak in Europe, live cattle imports were adjusted downwards in 2002 while beef imports were slightly raised. Live cattle imports during the year, however, are still expected to be way below the 200,000 heads traditionally imported by the country. The 2002 import numbers in the table are extrapolated figures based on the Jan. - May 2002 estimates from the National Statistics Office (NSO). Beef imports in 2002 will augment live cattle imports during the year with India again expected to dominate the market. Beef from India is mainly carabeef used by the meat processing industry. For 2003, live cattle imports are expected to accelerate from the previous year's level while those for beef expected to slowdown.

Despite the high prices of live cattle from Australia, Bureau of Animal Industry (BAI) Director, Dr. Jose Q. Molina, reportedly expects Australia to corner 99 percent of 2002 live cattle imports. According to Dr. Molina, local traders have tried finding other sources of live cattle such as Papua New Guinea but the latter cannot supply the required volume. Although live cattle prices from Australia may not differ significantly from those from the U.S., transportation costs are likely to raise local prices. Transportation from Australia reportedly will just take 6 days while a shipment from the U.S. takes 3 to 4 weeks.

For swine, imports of live animals are projected to marginally increase in 2002 as the domestic hog industry continues to expand. As in past years, live swine imports during the year are expected to be purebred animals. Imports the following year are expected to remain flat compared to its 2002 level.

Downward adjustments were made to pork imports in 2002 for a modest decline from the previous year's level as a result of adequate domestic production. Pork imports in 2003 are predicted to remain flat compared to its 2002 level as the good performance of the local industry is expected to continue through the year.

Tariffs of live cattle and swine and their meat and meat products through 2004 have been established after the Philippine Tariff Commission (PTC) issued recently the June 2002 Tariff and Customs Code of the Philippines. The new tariff and customs code incorporates all previous Executive Orders (EO's) that modified tariff rates.

Live bovine animals (HS0102.0000) and live purebred swine breeders (HS0103.0000) are levied a uniform 3 percent duty through year 2004 although both purebred swine and cattle for breeding may be brought in duty free under the Agricultural and Fisheries Modernization Act of 1997. Other swine not for breeding purposes have a two-tiered tariff schedule. In-quota rates are at 30 percent for 2002 through 2004, unchanged from the 2001 rate while the out-quota duties for those weighing less than 50 kg. are at 40 percent for 2002 from 45 percent the previous year, down to 35 percent in 2003 and 30 percent in 2004. Out-quota rates for live swine weighing 50 kg. or more are levied a 30 percent duty for 2002 through 2004, down from 35 percent in 2001.

Tariffs for fresh, chilled, or frozen meat of bovine animals (HS02.01 and HS02.02), are set at 10 percent this year through 2004, unchanged from its 2001 level. For fresh, chilled, and frozen pork (HS02.03) and hams and other cuts of swine (HS1602.41) in-quota tariffs remain at 30 percent for 2002 through 2004, unchanged from the previous years rate. Out-quota rates remain unchanged at 60 percent for this year, but scheduled to go down to 40 percent the following year through 2004 by virtue of EO 84 (refer to RP2003). The scheduled reduction in out-quota tariffs in 2003 for fresh/chilled/frozen pork is not expected to enhance imports during the year due to adequate local production.

The Minimum Access Volume (MAV) or tariff rate quota for fresh, chilled and frozen pork was 45,775 tons in 2001 of which 19 percent were utilized, down from the 44 percent MAV utilization the year before (refer to RP2003). For

2002, the pork MAV is 48,185 tons. The utilization rate as of the first half of the year is at 7.0 percent. The MAV utilization for the whole of 2002 is expected to remain flat compared to the 2001 level mainly as a result of adequate local production and the continued weakness of the Peso. The tariff rate quota for 2003 has been set at around 50,595 tons.

Policy

Last December 2001, the Department of Agriculture (DA) issued Administrative Order No.25 (AO 25) which requires the issuance of safety compliance certificates and a chain of custody certification check (COCC) on imports of meat and meat products. The DA contended that the measure was based on food safety concerns. The AO covered all poultry, beef, and pork products being imported to the Philippines and would be carried out by a non-government organization accredited by the DA. It was recalled pending the drafting of the appropriate implementing guidelines by the Bureau of Animal Industry (BAI) and the National Meat Inspection Commission (NMIC).

Post opposed the proposed implementing guidelines in public consultations pointing out that the measure was WTO inconsistent. AO 25 would likewise result in higher meat costs. Last July, the DA decided not to proceed with proposed mandatory pre-shipment meat inspection and certification procedure. According to the DA, AO 25 will be "re-drafted" to focus on customs-related issues such as reported under-valuing and misdeclaration. The proposal, if passed, would have halted U.S. meat and meat product exports to the Philippines worth \$23 million in 2001.

Responding to a Philippine request last year (refer to RP1065), the Paris-based *Office International des Epizooties* (OIE) on May 31, 2002 restored the FMD-free status of Mindanao, Visayas, Palawan and Masbate islands. Shortly thereafter, the DA issued AO 5 banning the entry of uncooked meat from Luzon to Mindanao ports starting August 1, 2002 to preserve the FMD-free status recently attained by the island. Like the controversial AO 25, AO 5 was later recalled for revision to allow the transshipment of imported meat through Luzon provided compliance with certain food safety procedures.

Marketing

A USDA-FSIS team concluded a week long survey of the meat inspection system of the Philippines last Sep. 24 to 28, 2001 including a whole-day informative seminar on "How the US Handles Meat & Poultry Imports/Export". The team met with relevant government agencies, private industry representatives and conducted observation tours to selected processing plants and meat retail outlets, including a traditional wet market. The visit was concluded by an equivalence meeting with the NMIC and involved discussions on the status as well as the directions of existing meat safety programs. The visit was the first step in efforts of establishing equivalence of the Philippine meat inspection system in relation to existing U.S. food safety procedures. A follow up activity has been tentatively scheduled this coming October.

Meanwhile, the DA has announced plans to make the southern region of Mindanao a major exporter of "halal" food exports to Muslim countries. Mindanao island has been declared foot-and mouth disease free by the OIE and the DA believes Mindanao can be a major base from which the Philippines can tap into the \$150 billion global halal food industry. Neighboring Muslim countries include Indonesia, Malaysia and Brunei.

The purchase by the DA of U.S. live animals and livestock genetics using the FY99 P.L. 480 Title 1 Agreement local proceeds for its livestock genetic improvement program will not push through this year. Funding problems as a result of budgetary complications are expected to further delay the purchase no earlier than 2003.

PSD Table						
Country	Philippines					
Commodity	Animal Numbers, Cattle			(1000 HEAD)		
	Revised	2001	Prelim.	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		01/2001		01/2002		01/2003
Total Cattle Beg. Stks	5472	5472	5327	5512	0	5567
Dairy Cows Beg. Stocks	0	0	0	0	0	0
Beef Cows Beg. Stocks	0	0	0	0	0	0
Production (Calf Crop)	1035	1180	1000	1185	0	1190
Intra EC Imports	0	0	0	0	0	0
Other Imports	100	100	150	110	0	150
TOTAL Imports	100	100	150	110	0	150
TOTAL SUPPLY	6607	6752	6477	6807	0	6907
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	0	0	0	0	0	0
Cow Slaughter	0	0	0	0	0	0
Calf Slaughter	0	0	0	0	0	0
Other Slaughter	1200	1200	1175	1200	0	1275
Total Slaughter	1200	1200	1175	1200	0	1275
Loss	80	40	60	40	0	40
Ending Inventories	5327	5512	5242	5567	0	5592
TOTAL DISTRIBUTION	6607	6752	6477	6807	0	6967
Cal. Yr. Imp. from U.S.	0	0	5	0	0	5
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

PSD Table						
Country	Philippines					
Commodity	Meat, Beef and Veal		(1000 MT CWE)(1000 HEAD)			
	Revised	2001	Prelim.	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		01/2001		01/2002		01/2003
Slaughter (Reference)	1200	1200	1175	1200	0	1275
Beginning Stocks	51	51	28	28	0	28
Production	215	215	210	220	0	230
Intra EC Imports	0	0	0	0	0	0
Other Imports	92	92	100	115	0	120
TOTAL Imports	92	92	100	115	0	120
TOTAL SUPPLY	358	358	338	363	0	378
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	0	0	0	0	0	0
Human Dom. Consn.	300	300	305	305	0	320
Other Use, Losses	30	30	30	30	0	30
TOTAL Dom. Consum.	330	330	335	335	0	350
Ending Stocks	28	28	3	28	0	28
TOTAL DISTRIBUTION	358	358	338	363	0	378
Cal. Yr. Imp. from U.S.	2	2	2	2	0	2
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

PSD Table						
Country	Philippines					
Commodity	Animal Numbers, Swine			(1000 HEAD)		
	Revised	2001	Prelim.	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		01/2001		01/2002		01/2003
TOTAL Beginning Stocks	11715	11715	11816	11816	0	12218
Sow Beginning Stocks	1920	1920	1950	1950	0	1975
Production (Pig Crop)	21000	21000	21500	21500	0	21725
Intra EC Imports	0	0	0	0	0	0
Other Imports	1	1	1	2	0	2
TOTAL Imports	1	1	1	2	0	2
TOTAL SUPPLY	32716	32716	33317	33318	0	33945
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	0	0	0	0	0	0
Sow Slaughter	0	0	0	0	0	0
OTHER SLAUGHTER	19000	19000	19700	19500	0	20000
Total Slaughter	19000	19000	19700	19500	0	20000
Loss	1900	1900	1600	1600	0	1600
Ending Inventories	11816	11816	12017	12218	0	12345
TOTAL DISTRIBUTION	32716	32716	33317	33318	0	33945
Cal. Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

PSD Table						
Country	Philippines					
Commodity	Meat, Swine		(1000 MT CWE)(1000 HEAD)			
	Revised	2001	Prelim.	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		01/2001		01/2002		01/2003
Slaughter (Reference)	19000	19000	19700	19500	0	20000
Beginning Stocks	7	7	11	11	0	11
Production	1064	1064	1103	1095	0	1120
Intra EC Imports	0	0	0	0	0	0
Other Imports	15	15	15	10	0	10
TOTAL Imports	15	15	15	10	0	10
TOTAL SUPPLY	1086	1086	1129	1116	0	1141
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	0	0	0	0	0	0
Human Dom. Cons.	1060	1045	1090	1075	0	1100
Other Use, Losses	15	30	15	30	0	30
TOTAL Dom. Cons.	1075	1075	1105	1105	0	1130
Ending Stocks	11	11	24	11	0	11
TOTAL DISTRIBUTION	1086	1086	1129	1116	0	1141
Cal. Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0